

SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
AUDITED FINANCIAL STATEMENTS
AT JUNE 30, 2005
AND THE THREE FISCAL YEARS THEN ENDED

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
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**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
LIST OF OFFICIALS
June 30, 2005**

BOARD MEMBERS:

Linda Bunkers, RN, President
Deb Soholt, RN, Vice President
Christine Pellet, LPN, Secretary
Donald Simmons, Public Member
Diana Berkland, RN
Teresa Disburg, RN
June Larson, RN
Robin York, RN
Dori Dufault, LPN
Patricia Wagner, LPN

BOARD STAFF:

Gloria Damgaard, RN, MS, Executive Secretary
Nancy Bohr, RN, MBA, MS, Nursing Program Specialist
Linda Young, RN, MS, Nursing Program Specialist
Andrew Albers, RN, BSN, Nursing Program Specialist
Robert Garrigan, Accountant
Jean McGuire, Senior Secretary
Winora Robles, Senior Secretary
Lois Steensma, Secretary

Paul T. East, CPA
Paul W. Vander Woude, CPA

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INDEPENDENT AUDITOR'S REPORT

The Honorable Michael Rounds
Governor of South Dakota

Doneen Hollingsworth, Secretary
South Dakota Department of Health

and

South Dakota Board of Nursing

We have audited the accompanying financial statements of the South Dakota Board of Nursing, an enterprise fund of the State of South Dakota, as of June 30, 2005 and for the three fiscal years then ended, as listed in the table of contents. These financial statements are the responsibility of the South Dakota Board of Nursing's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present only the South Dakota Board of Nursing, an enterprise fund of the State of South Dakota, and are not intended to present fairly the financial position of the State of South Dakota, and the changes in its financial position and its cash flows for the three fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets – cash basis of the South Dakota Board of Nursing as of June 30, 2005, and the related statement of revenues, expenses, and changes in net assets – cash basis and its cash flows – cash basis for the three fiscal years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2005 on our consideration of the South Dakota Board of Nursing's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of this report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and, should be considered in assessing the results of our audit.

East, Vander Woude & Co, PC

Sioux Falls, South Dakota
December 23, 2005

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2005**

ASSETS	
Current Assets:	
Cash on Deposit - State Treasurer	\$ 812,408
Cash	424
Loans Receivable	5,182
Total Current Assets	<u>818,014</u>
Non-Current Assets:	
Loans Receivable	<u>103,571</u>
TOTAL ASSETS	<u>921,585</u>
LIABILITIES	
TOTAL LIABILITIES	<u>-</u>
NET ASSETS	
Restricted	
Colleagues in Caring	33,242
Unrestricted	<u>888,343</u>
TOTAL NET ASSETS	<u><u>\$ 921,585</u></u>

The accompanying notes are an integral part of the financial statements

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS - CASH BASIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

	2005	2004	2003
Operating Revenue:			
Licenses, Permits, and Fees	\$ 626,634	\$ 560,807	\$ 449,882
Contributions	-	21,025	10,375
Special Assessments	125,800	117,580	119,520
Nurse Tuition Reimbursement Program	(8,101)	-	150,000
Health Professional Recruitment Incentive Program	135,000	150,000	-
Colleagues in Caring Grant	-	-	5,000
Reimbursements:			
Nurse's Aide Registry	47,340	46,957	46,824
Medical Board	-	13,202	13,857
HPAP reimbursements from boards	16,799	13,757	15,538
Nursing Loan Interest	210	67	199
Bad Debt Recoveries	3,373	-	1,286
Other Revenue	6,221	10,452	2,542
Total Operating Revenue:	953,276	933,847	815,023
Operating Expenses:			
Personal Services and Benefits	375,134	310,345	311,251
Contractual Services	86,626	104,296	119,248
HPAP Program	77,572	62,853	58,733
Payments to awardees - Health Tuition Reimbursement	137,500	-	-
Computer Services	59,836	20,301	26,567
Rent	31,505	29,220	29,705
Travel and Per Diem	33,381	28,997	22,888
Postage / Shipping	14,494	16,099	16,006
Supplies and Materials	15,823	10,370	10,693
Telephone / Internet	4,045	5,015	9,019
Insurance and bonds	3,515	2,050	2,316
Survey	1,016	1,445	697
Hearings	1,211	750	1,059
Publications and Subscriptions	1,192	1,021	535
Nursing Loan Forgiven	49,364	52,778	45,925
Nursing Loan Bad Debts	8,069	3,381	18,644
Other Expenses	2,456	68	3,366
Total Operating Expenses	902,739	648,989	676,652
Operating Income (Loss)	50,537	284,858	138,371
Nonoperating Revenue (Expenses):			
Interest Income on Investments	14,811	13,200	12,375
Purchase of Fixed Assets	(3,265)	(2,635)	(25,899)
Total Nonoperating Revenue (Expenses)	11,546	10,565	(13,524)
Change in Net Assets	62,083	295,423	124,847
Net Assets at Beginning of Year	859,502	564,079	439,232
Net Assets at End of Year	\$ 921,585	\$ 859,502	\$ 564,079

The accompanying notes are an integral part of the financial statements

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
STATEMENT OF CASH FLOWS - CASH BASIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

	2005	2004	2003
Cash Flows From Operating Activities:			
Receipts from customers	\$ 752,434	\$ 678,387	\$ 569,402
Receipts from contributions	-	21,025	10,375
Receipts from reimbursements	64,139	73,916	76,219
Receipts from colleagues in caring grant	-	-	5,000
Receipts from Nurse Tuition Reimbursement Program	(8,101)	-	150,000
Receipts from Health Professional Recruitment Incentive Program	135,000	150,000	-
Receipts from Nursing Loan principal repayments	2,318	4,076	8,337
Receipts from Nursing Loan interest	210	67	199
Receipts from other operating activities	9,594	10,452	3,828
Disbursements of Nursing Loans	(55,000)	(53,500)	(51,000)
Payments to employees and for benefits	(375,134)	(310,345)	(311,251)
Payments to vendors for goods and services	(332,672)	(282,485)	(300,832)
Payments to awardees - Health Tuition Reimbursement Program	(137,500)	-	-
Net Cash Provided (Used) by Operating Activities	<u>55,288</u>	<u>291,593</u>	<u>160,277</u>
Cash Flows From Capital And Related Financing Activities:			
Purchase of Fixed Assets	(3,265)	(2,635)	(25,899)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,265)</u>	<u>(2,635)</u>	<u>(25,899)</u>
Cash Flows From Investing Activities:			
Investment Income	14,811	13,200	12,375
Net Cash Provided (Used) by Investing Activities	<u>14,811</u>	<u>13,200</u>	<u>12,375</u>
Net Increase (Decrease) in Cash	66,834	302,158	146,753
Cash - Beginning of the year	745,998	443,840	297,087
Cash - End of the year	<u>\$ 812,832</u>	<u>\$ 745,998</u>	<u>\$ 443,840</u>
Reconciliation of Operating Income (Expense) To			
Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 50,537	\$ 284,858	\$ 138,371
Increase/Decrease in Assets:			
(Increase) / Decrease In Loans Receivable	4,751	6,735	21,906
Net Cash Provided (Used) by Operating Activities	<u>\$ 55,288</u>	<u>\$ 291,593</u>	<u>\$ 160,277</u>

The accompanying notes are an integral part of the financial statements

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity:

The South Dakota Board of Nursing is an enterprise fund of the South Dakota state government within the Department of Health. These financial statements present only this enterprise fund and do not purport to, and do not, present fairly the financial position of the State of South Dakota, and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

The Board of Nursing, which consists of eleven members appointed by the Governor, administers and enforces the rules and regulations regarding nursing practice. The Board is responsible for the examination, licensure / certification and renewal of the licenses / certificates of qualified nursing applicants. The Board also provides financial assistance to qualified South Dakota nursing students through the Nurse Education Assistance Loan Program.

B. Fund Accounting:

The Board of Nursing is accounted for as an enterprise fund. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting:

Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The Board’s accounts are maintained on a cash basis and the accompanying financial statements reflect only cash received and disbursed. Therefore, receivables and payables, accrued income and expenditures, which may be material in amount, are not reflected in the accompanying financial statements which are not intended to present the financial position or results of operations in conformity with accounting principles generally accepted in the United States of America for proprietary funds. The exception to this is the accounting for nursing loans receivable.

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. Basis of Accounting, continued:

The Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues consist principally of license fees and contract revenues. Expenses include the costs of operating the Board, including personnel, contractual services, administration, and nursing loans forgiven by employment. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. Nonoperating revenues include interest income from cash invested in state accounts. Nonoperating expense includes the purchase of furnishings and equipment under the state capitalization policy of \$5,000 per item.

D. Cash and Cash Equivalents:

For reporting purposes, cash includes cash on hand, cash in local bank, and cash in the State Treasury.

Board deposits are made in qualified public depositories as defined by South Dakota Codified Law 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to or at least 100 percent of the public deposit accounts which exceed deposit insurance such as the Federal Depository Insurance Corporation or the National Credit Union Administration. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

At June 30, 2005, the carrying amount of the Board's cash deposit was \$324 and the bank balance was \$5,277. This demand deposit is held in the Board's name and is FDIC insured.

The Investment in State Treasury fund's carrying amount and market value at June 30, 2005 was \$812,408. This represents the Board's portion of a pool of funds invested and managed by the South Dakota Investment Council, and is not subject to credit risk categorization.

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. Loans Receivable:

Loans are advanced to eligible nursing students based upon financial need and bear an interest rate of 4.5% (which is deferred until date of graduation). The loans including accrued interest are forgiven at the rate of \$1.00 per hour worked in the state of South Dakota. Interest income is recorded only on those loans which are being repaid financially by those recipients not working in the state.

F. Estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. OPERATING LEASES

In October of 2002 the South Dakota Board of Nursing entered into an operating lease with Beckman Management, LLC for office space. The term of this lease is for five years to commence on October 15, 2002 and terminating on October 14, 2007. The leasing of 3,941 square feet is based on a rate per square foot per year paid over twelve monthly installments. The rates are as follows: \$9.00 per square foot for the first year, \$9.50 per square foot for the second year, and \$10.35 per square foot for the remaining three years.

Rent payments are payable from licensing fees and contribution revenues. The Board subleases space to three lessees for a total of \$736 a month for the same terms as the office lease described above. The following is a schedule of the board's aggregate minimum payments for the operating lease and subleases for each of the succeeding three years ending June 30.

	<u>Operating Lease</u>	<u>Sublease</u>	<u>Net</u>
2006	\$ 40,789	\$ 8,836	\$ 31,953
2007	40,789	8,836	31,953
2008	8,498	1,840	6,658
Total	<u>\$ 90,076</u>	<u>\$ 19,512</u>	<u>\$ 70,564</u>

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENTS**

2. OPERATING LEASES, continued

Total rent expense before sublease income was \$35,079, \$37,029, and \$40,091 for the years ended June 30, 2003, 2004, and 2005, respectively. Total sublease income was \$5,374, \$7,809, and \$8,586 for the years ended June 30, 2003, 2004, and 2005, respectively.

3. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. The Board participates in the State's Public Entity Pool for Liability (PEPL) self insurance program for tort liability, including errors and omissions, medical malpractice liability, and general liability. The PEPL fund's liability coverage limits are \$1,000,000 per occurrence. The State has purchased reinsurance coverage to cover claims costs per occurrence between \$250,000 and \$1,000,000. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years, and no amounts have been designated for future losses as of June 30, 2005.

4. RETIREMENT PLAN

The South Dakota Retirement System (SDRS) is a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Board of Nursing contributions to the SDRS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$17,278, \$14,301 and \$14,149 respectively, equal to the required contributions each year.

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
NOTES TO THE FINANCIAL STATEMENTS**

5. COMMITMENT

The Board entered into a software license agreement for a licensure system to track all license types for the Board. The license agreement is for an initial three year term. The fee for the initial term is \$118,000, payable in equal installments over three years. At June 30, 2005, there were two remaining installments payable totaling \$79,000.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Michael Rounds
Governor of South Dakota

Doneen Hollingsworth, Secretary
South Dakota Department of Health

and

South Dakota Board of Nursing

We have audited the financial statements of the business-type activities of the South Dakota Board of Nursing, as of June 30, 2005 and for the three fiscal years then ended, and have issued our report thereon dated December 23, 2005. We conducted our audit in accordance with auditing standards generally in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Dakota Board of Nursing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Board of Nursing's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of current audit findings as items 2005-1. We also noted certain additional matters that we reported to management of the South Dakota Board of Nursing in a separate communication dated December 23, 2005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we consider item 2005-1 to be a material weakness.

Compliance and other matters

As part of obtaining reasonable assurance about whether South Dakota Board of Nursing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management and the South Dakota Legislature. However, as required by SDCL 4-11-11, this report is a matter of public record, and its distribution is not limited.

East, VanderWoude + Co, PC

Sioux Falls, South Dakota
December 23, 2005

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

There were no written compliance audit findings or questioned costs reported.

**SOUTH DAKOTA DEPARTMENT OF HEALTH
SOUTH DAKOTA BOARD OF NURSING
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS**

Finding Number 2005-1

Condition:

The South Dakota Board of Nursing prepares a monthly Statement of Assets, Liabilities, and Fund Balance and a Statement of Cash Receipts and Disbursements reflecting monthly and year-to-date columns for the general operations (General Fund) of the Board of Nursing. Financial statements are not prepared to record the activity in the state cash accounts for the Nursing Loan Program, Colleagues in Caring Fund, Nursing Workforce Center, Nurse Tuition Reimbursement Program, and the Health Professional Recruitment Program. The Board used liability accounts on the general ledger to account for certain program revenues and expenses. The liability accounts were reduced to zero by transferring cash to the state cash account for the program. The program funds invested in the state cash account were not accounted for on the general ledger. The Board summarized financial data for the programs on Excel spreadsheets.

Criteria:

GASB 34 requires that all activities of the South Dakota Board of Nursing be accounted for in the Board's financial statements.

Effect:

The present monthly financial statements only present the activities of the General Fund and as such, do not provide the South Dakota Board of Nursing with complete information as to the overall financial condition and activities of the Board on one financial report.

Recommendation:

Modify the general ledger to account for all activities of the South Dakota Board of Nursing and to present on a cash basis all assets, liabilities, net assets, revenues and expenses of the Board in the monthly financial statements in accordance with GASB 34.

Management's Response:

The SD Board of Nursing will account for all activities of the Board in one of the following four areas: General Fund (including Colleagues in Caring funds), Student Loan, Nursing Workforce Center, and Contracted Services (HPRIP funds). The Board's intent is to procure a new software package capable of processing accounting information by departments to account for each area and to combine those departments into one report to meet GASB 34 requirements.